THE NATIONAL CITY BANK OF NEW YORK

1916

U. S. SECURITIES GOVERNMENT FINANCE ECONOMIC AND FINANCIAL CONDITIONS

NEW YORK, AUGUST, 1916.

General Business Conditions.

NOTWITHSTANDING the influence of midsummer weather there has been practically no let up in industry during the past month. Trade has been slightly less active, for it is between buying seasons, but mills and factories are sold so far ahead that there has been no relaxation of the pressure upon them. The market for munition stocks has been affected by reports that war business was nearing an end, but later news shows that there is no warrant for this opinion. All present signs are against an early termination of the war. The Allies have been inspired with new confidence and the Germanic powers are not disheartened. After two years of war, money is raised as easily as in the first six months. The reserves of the great banks of England, France, Germany and Russia are about as strong in proportion to their liabilities as they were a year ago. The Bank of England is in stronger position now than it was in July, 1915, its reserve on July 1st last being 28 per cent., as against 16 at the corresponding date. 1915. At the beginning of July, 1915, the gold reserve of the Bank of France against circulation was 32 per cent., of the Bank of Germany, 43 per cent., and of the Bank of Russia, 48 per cent. At July 1, 1916, the gold reserve of the Bank of France was 30 per cent., of the Bank of Germany, 37 per cent., and of the Bank of Russia, 47 per cent. These figures do not indicate rapid progress toward ruin.

The belligerents are all producing vastly more war supplies than a year ago, and the Allies are probably less dependent upon the United States than they were, but fighting at the present pace takes ammunition and supplies upon an immensely greater scale. When trade opportunities in all parts of the world are taken into the account there appears to be little probability of a decline of American exports while the war lasts.

The steel industry is working at high pressure and earnings for the last six months, and particularly for the last three months, have been phenomenal. The net earnings of the United States Steel Corporation for the second quarter of the year were $81,000,000, and for the third quarter are likely to be more rather than less. In view of the very favorable results and in partial compensation for the suspension of dividends last year, the directors have authorized an extra dividend of 1 per cent. upon the common stock. The great bulk of the earnings are kept in the treasury and will be expended for the improvement and enlargement of the company's facilities. The same policy is being pursued by the steel companies generally. The Bethlehem Company will expend $70,000,000 upon its new acquisitions, the Pennsylvania Steel Company and the Maryland Steel Company.

The expansion of industrial capacity is very general. Despite the present high costs, building operations are active over the country. The "Commercial and Financial Chronicle" reports that a compilation of building permits for 164 cities shows an aggregate in the six months ended June 30th, of $522,300,000 as against $452,716,573 in the corresponding period of 1914. The figures have never been exceeded except in the first six months of 1909, when they were $525,000,000. The explanation for this activity is that floor space, storage room and housing capacity have been imperatively demanded. People, as a rule, do not build when they can build most cheaply, but when expanding business requires it, and they order machinery under the same circumstances.

The shipbuilding industry is being rapidly enlarged, and plenty of work is in sight for several years. The Senate program to build 157 ships for the navy, including 16 of the largest sized battle-ships and cruisers in the next three years, is enough in itself to assure great activity in the ship yards.

The railroads continue to have an unprecedented traffic. The returns for May were quite as satisfactory as in other months preceding, and for the year ended June 30, have doubtless set a new record in both gross and net earnings. Within the last week the principal carrier in New England has found it again necessary to set restrictions upon freight offerings. Unfortunately the danger of a strike still hangs over the country, the trainmen having undoubtedly given their officials full authority to call one. In the prosperous condition of the roads they can afford to pay proper wages to their employes, but the pub-

lic has a legitimate interest in the controversy, and its rights should be asserted at least to the extent of insisting that there shall be no interruption of service.

It is a deplorable fact that there are circumstantial and authentic reports going to show that labor, in some instances, instead of being inspired by higher pay to greater productiveness, is becoming less efficient. In one instance under our observation, a large employer, whose attitude toward labor is that of sympathetic consideration, reports that after raising wages three times within a year the output per man is in serious degree less than before. The superintendents in immediate charge of operations attribute these results to indifference, loss of discipline, and the fact that other jobs can be easily had. It is needless to say that this development is disappointing to all who are sincerely interested in seeing the standard of wages and of living advanced, but it illustrates the fact that normal progress is by gradual rather than revolutionary processes.

The Crops.

The crops are at a critical stage and reports from different sections are conflicting. The winter wheat crop has been harvested under good weather conditions. The acreage was reduced, and the stand over most of the territory was below the average, but the grain is of good quality. Spring wheat was doing handsomely up to the middle of July, but it has been attacked by rust and the damage may be serious. The price of wheat has advanced about 15 cents a bushel during the month. Fortunately the surplus of wheat from last year's crop is large and the amount available for consumption, during the coming year will probably be up to the average. The Canadian crop has promised to be above the average, but rust is spreading in the northwest provinces and it may share the fate of the crop on this side of the line.

The corn crop had a late start but made remarkable progress in July under the hot weather. It has now reached the stage where the heat will be damaging unless rains are timely. Reports from Oklahoma, Texas and Kansas indicate that harm has been done, and rain is needed in over most of the important corn states.

The hay crop is a heavy one but some loss has been suffered from excessive rains. Oats and barley have been harvested in good condition, potatoes promise a good yield.

The cotton crop is also in an uncertain state. The acreage is about twelve per cent. larger than last year's, and the promise up to the middle of July was for a crop of approximately 14,500,000 bales. Since then, however, the states from Virginia to the Mississippi river have suffered from an almost unprecedented rainfall, and the crop has undoubtedly been seriously injured. A portion of the country west of the Mississippi is suffering from drought. At this writing it is difficult to estimate what the outcome will be. The consumption of cotton by American mills for the year ended July 31 has been approximately 7,500,000 bales, the largest on record, but the exports, about 6,200,000 bales, are light, on account of the closing of the markets of Central Europe. English stocks have been reduced, owing to the scarcity of ships and high charges, but freight rates are now much lower. The 1915 crop was about 12,000,000 bales, and the carryover from the big crop of 1914 has been materially reduced. If the war should end, so that the bare markets of Germany and Austria-Hungary can be reached, the new crop is expected to bring a high price, but if these markets remain inaccessible and the crop is above 13,000,000 bales it is probable that there will be cotton to carry into the next year. The price at 13½ cents seems to be fairly well adjusted to the situation.

While the food crops are not as abundant as in some years they are likely to be fairly adequate to our needs. Live stock of every kind is bringing high prices. Wool is very high, owing to the embargo upon the product of Great Britain and the Colonies, and the extraordinary demand for the armies. Altogether the buying power of the agricultural population promises to be well sustained.

Foreign Trade and Exchange.

The figures for our foreign trade in the fiscal year ended June 30th last have been given out by the Department of Commerce. They show exports of $4,334,000,000, imports of $2,198,000,000, and a balance on merchandise account of $2,136,000,000. The month of June contributed $219,000,000 to this balance, being second to the month of May, when the balance was $245,692,298.

Notwithstanding this enormous trade balance, accruing for the most part against Great Britain and her Allies, demand sterling exchange has been kept steady at a little below $4.76, sustained undoubtedly by sales of securities in this market and the shipments of gold from Ottawa and London. The heavy movement of gold indicates that British holdings of securities have been withheld from the market during the late reactionary period, instead of being, as some have surmised, an influence for the decline.

The British government is proceeding with its policy of buying and borrowing American securities from British owners, and has been transmitting large amounts to its agents in this country. The probability is that those which it buys will be sold outright in this market when that can be done without loss. And presumably many have been sold. The Chancellor of the Exchequer by way of explaining the fact that Treasury expenditures have been running at the rate of $30,000,000 per day, recently stated that actual expenses were not exceeding $25,000,000, the former figures including the purchases of American securities.

The general policy of the government in acquiring these securities, in laying an extra 10 per cent. tax on income from them, and an explanation and defence against criticism, was made in Parliament recently by Mr. Montague, of the Treasury. It is reported:

Mr. Montague said that no securities would be liable to the tax unless the Treasury were willing to take them either on purchase or on deposit. As the Treasury did not want to be snowed under by thousands of offers of small amounts of securites they fixed the limit at 5,000 dollars, but they were perfecting a scheme by which holders of smaller amounts than 5,000 dollars, who wanted to lend or deposit, would be enabled to do so, through the kind agency of the banks, by joining together and forming larger amounts. The reason for the delay in the publication of the lists of securities was that the Treasury wanted to regulate the stream of offers from week to week. They believed that 60 per cent. of what they required would be derived from the lists now published, and when they were got rid of, other securities would be dealt with more quickly. Another reason for the delay was that the Treasury did not want to be the possessor of a larger amount of securities than they could dispose of. Every effort was made to exclude from the lists securities they could not find a market for, or which might remain in their hands for such a time as to become a dangerous possession. He thought the vital necessity of the State had been lost sight of in some of the criticisms of the scheme. It was necessary to buy enormous quantities of goods from America. The only ways those goods could be paid for were by gold, by exporting manufactures which the Americans would buy, or by dollar securities. We had not an unlimited supply of gold, there were obvious limits to the amount of goods we could manufacture for exports, but dollar securities were things which Americans were willing, not only to buy, but to lend money upon. Unless we mobilized our resources, unless we could pay for the goods we required, the supply would stop. It was absolutely essential that the Government should have the rights they were seeking in order to carry on the war and to supply our soldiers with munitions. They were discriminating between one kind of property and another, because at the moment they had no use for other forms of property, but if the time should come when they could use any other kind of property in order to carry the war to a successful conclusion the Government would not hesitate to say what was wanted, and he was convinced that the House would readily respond to their appeal.

From week to week the list has been enlarged, and now numbers nearly 1200 issues of stocks and bonds, including numerous Canadian issues.

It is probable that Canadian provincial and municipal indebtedness as it matures will be refunded in New York. Canadian credit is good in this market, on the strength of a belief that after the war immigration from Great Britain to the colonies will be large, and that Canada will be the most popular colony. There is a large amount of Canadian indebtedness in London which can be transferred without waiting for maturity, and it will come along with or next after American securities. London exhibits no misgivings as to its ability to support the exchange situation as long as the war may continue. The "Statist" says that, "beyond our American securities Great Britain possesses over £3,000,000,000 of other foreign stocks of one kind or another, and then there are immense quantities of British securities of the highest class available."

The manner in which these securities can be handled in the United States is demonstrated by the recent French loan. In this instance a corporation was formed here called the "American Foreign Securities Company," with a paid-up capital of $10,000,000. This company undertook to lend $100,000,000 to the government of France upon the security of $120,000,000 par value of securities which the French government has borrowed from citizens of France. This collateral consists of obligations of the governments of Argentina, Norway, Sweden, Holland, Switzerland, Uruguay, Brazil, Egypt, Spain, Suez Canal shares and obligations of American corporations. The French government agrees to furnish additional collateral when needed to keep the security approximately 20 per cent. in excess of the face of the loan. The collateral will be deposited with the Bankers' Trust Company of New York. The American Foreign Securities Company is selling its own notes, secured as above, and these notes will be listed on the New York Stock Exchange. The loan is for three years from August 1st, at 5 per cent., and will net 5¾ per cent. It has been well received.

The French government will pay the owners of the borrowed securities a bonus equal to 25 per cent. of the gross income upon them, the owners retaining the regular income.

The Money Market.

The money market was disturbed for several weeks about July 1st by the extraordinary payments which fell together at that time. The most important factor in these consisted of the payments to the goverment on account of the income tax. From June 15th to July 1st the general fund of the Treasury rose from $135,466,541 to $236,715,054. Not all of the $101,000,000 increase was locked up in the Treasury, for about $20,000,000 was accumulated temporarily in national banks serving as active depositaries for revenue collectors, and Treasury deposits in the Federal Reserve banks were increased $61,000,000. Treasury deposits in national banks are, however, now understood to be temporary, and the banks do not feel free to use them, and deposits in the Federal Reserve banks do not promptly affect the money market.

Besides the payments to the Treasury, a large share of which were made in New York, there were the regular mid-year interest and dividend disbursements, amounting to several hundred million dollars, and on July 3d payments upon the Russian loan of $50,000,000, together with other important calls. The effect of all this shifting of funds was to withhold money from the market while it was going on. Call money stiffened to five per cent. and touched six per cent., although not much was loaned at the latter rate. Time money was affected in less degree but moved up to a higher level than it has reached since rates collapsed after the early months of the war.

That bankers regarded the flurry as largely due to temporary causes is evident from the fact that they did not resort to the Federal Reserve

banks for rediscounts. As yet there has been very little recourse to the system. On July 21st the total of all bills discounted and bought by the twelve banks was $114,319,000, and of these $28,937,000 were rediscounts for members and $85,382,000 were bought in the open market. The New York reserve bank held $281,000 of rediscounts and $29,730,000 of bills purchased in the market.

The surplus reserves of the Clearing House banks of New York were down on July 8th to $53,546,000, the lowest point they have touched since the new system of reserves went into effect, but on July 15th they were back to $95,109,000, and on July 22nd to $108,000,000. This recovery was due in large part, however, to gold importations from Canada and London. Notwithstanding these imports, deposits at the latter date were at the lowest point of the year. Loans were also lower than at any previous date this year. Country bank balances are considerably lower than in April, and but for the importations of gold, which have aggregated about $200,000,000 since the beginning of May, it is evident that there would have been a greater effect upon interest rates and probably a greater resort to the Federal Reserve banks. Country bank borrowings at the centers are unusually light.

There seems to be nothing in prospect promising further disturbance during the remainder of the summer, but the demands of business for money and credit are upon an unprecedented scale and rates may be expected to work firmer. Nothing but a continuance of gold imports can keep them down, and we may expect foreign loans to take up a portion of the credit which the importations make available.

The reports of dearer money in the United States caused the Bank of England to raise its discount rate on July 13th from 5 to 6 per cent., the first change made since the month of August, 1914. The action was taken to offset any inducement to withdraw money from London for employment in New York. Following the Bank's action the Committee of London Clearing Bankers advanced the rate on deposits one-half per cent. and bill brokers made a similar advance for money at call and notice. The open market rate on commercial bills is 5¾ to 5⅞.

The British government has been meeting its needs for the past six months by the sale of Exchequer bonds, drawing 5 per cent., and Treasury bills running from 4½ to 5 per cent. In June the rate on all issues of Treasury bills, which run for 3, 6, 9 and 12 months, was made 5 per cent. Following the advance in the Bank of England's rate, the rates on Treasury bills were advanced to 5½ per cent. for three months, 5¾ for nine months, and 6 per cent. for one year. The government is disposed to postpone the issue of another long-time loan as long as possible, as it will probably have to be at a higher rate than the last one, and as the old loan carries the privilege of conversion into any new one the effect will be to raise the rate on much of the outstanding indebtedness.

The expenditures of the British government for the three months ended June 30 were approximately $2,222,795,000, as compared with $233,080,000 in the corresponding period of 1914. The income for the period was, approximately, $365,000,000 from revenue, $975,000,000 from Treasury bills, $615,000,000 from the five-year Exchequer bonds, and $233,000,000 from other forms of indebtedness.

On July 1st the last price restrictions upon trading on the London stock exchange were removed. The minimum list was largely reduced over a year ago, but trading has now been made entirely free, except that the ban remains against foreign investments.

The call rate in New York last week ranged from 2 to 2½ per cent. Commercial paper, choice names, is costing borrowers about 4½ per cent. Eligible bank acceptances are on a 2½ basis and upwards.

The Federal Reserve banks have responded to the firmer feeling in the money market by advancing their rates in several instances, as appears by the table elsewhere.

The stock of money in the United States on July 1st, 1915, and 1916, and the amount of each kind, is shown by the following statement:

	1916	1915
Gold coin, including bullion in the mints	$2,439,921,932	$1,993,549,015
Silver dollars	568,270,900	568,272,478
Subsidiary silver	187,378,094	185,331,865
United States notes	346,681,016	346,681,016
Federal Reserve notes	176,168,450	84,260,500
Federal Reserve bank notes	9,000,000	
National bank notes	744,174,660	819,273,594
	$4,471,595,052	$3,997,368,468

On July 1, 1916, the Federal banks and reserve agents held $151,577,000 in gold for the redemption of outstanding Federal Reserve notes, against $62,365,000 so held July 1, 1915.

The net importations of gold for the fiscal year ended June 30 last were $404,000,000, a sum about equal to the entire production of gold outside of the United States last year.

On July 24, 1916, the gold holdings of the Treasury aggregated $1,848,935,261.

The Bond and Stock Market for July.

The month of July is almost invariably a dull period for the securities market as a result of the large number of absentees from banking and investment circles, and the volume of business in both stocks and bonds during July, 1916, has shown a decline as compared with previous months. The average daily sales of bonds on the Exchange up to the close of business on the 24th of July were only $2,473,632, as compared with a daily average of $3,261,000 for June and $3,791,000 for May; but these sales compare favorably with those of July in the previous year, when a daily average of $2,098,000 was reported. Bond prices generally moved in a narrow range. The average price of forty listed bonds, as

compiled by *The Wall Street Journal,* was 93.80 on July 24, compared with 93.97 on July 1, and 94.49 on June 1. A marked feature of the trading during the period was the demand for tax exempt securities, probably due in part to the proposed increase in the income tax. This has resulted in slightly higher quotations for municipal issues. Among Government securities the Anglo-French 5% Bonds were dealt in extensively, the price ranging from 95¼ to 96, and the steady absorption of this issue by investors continues. The Japanese Government 4½s and the Dominion of Canada issues were also fairly active. The Russian credit has met with favor on the part of investors and the certificates have been selling at a premium over the offering price. Good railway bonds have been in demand, but there is little change in their quoted values.

Daily sales of stocks up to July 24th averaged 403,040 shares, compared with 493,224 shares in June, 677,990 shares in May, and 552,300 shares in July, 1915. Prices of both railway and industrial stocks declined severely during the month but have recovered to some extent. The average price of 20 railroads, as compiled by the *Wall Street Journal,* was 104.43 on the 24th, compared with 105.78 on the 1st, while the average price of 12 industrials was 122.33 on the 24th, compared with 120.96 on the 1st. The advance of call money during the month to 6%, a rate that had not been quoted previously since the months following the outbreak of the war, had a depressing influence upon the market, but the high rate proved only temporary and call money has ruled lower since. The advance was largely due to the half-yearly settlements and the large income tax payments. Later the rate reacted to around 3%, and subsequently fluctuated around 2½%.

A syndicate of New York and Baltimore bankers has purchased $3,500,000 State of Maryland 4% Bonds, which have been offered to the public on a 3.90% basis.

The Pennsylvania Railroad Company has sold $20,000,000 9-months Notes to New York bankers. The notes have been placed privately with investors on a 3.87½% basis.

The New York Central Railroad Company has sold to Cleveland interests, its holdings in the New York, Chicago & St. Louis Railroad Company. It is understood that improvements will be made in the Cleveland passenger and freight terminals, which will be used jointly by other railroads and various interurban electric lines.

Government Bonds.

During the month of July there has been an unusually heavy inquiry for high grade municipal and territorial bonds as a basis of collateral for postal savings funds. Reports from all parts of the country show that the amount of money deposited in postal savings banks during the month has been large, due in part to the prosperity of the class who place their savings in these banks and in part to the fact that postal savings legislation of May 18, 1916, removed the limit on deposits of $500 per year by any one individual and increased the amount which might be deposited to $1,000.

Another reason for the heavy demand for bonds is that the Treasury Department about every six months requests postal savings depositaries to place with it additional bonds in anticipation of future lodgments of funds with such banks. In some communities postal savings come in slowly and it requires about the six months' period for the accepted amount of collateral to be covered.

The territorial bonds—Philippine, Porto Rican and Hawaiian—are taken at par to secure postal savings funds and are much sought after for that purpose. Many of the banks prefer high grade municipal bonds on account of their higher interest yields, but in most instances the profits to be derived from the use of territorial bonds is just as great, as the fact that the latter are accepted at par offsets the higher yield on the municipal bonds, which are accepted at ninety per cent. of market value, not to exceed ninety per cent. of par.

The market for the straight government issues has been rather inactive during the month, as but few banks increased their circulation accounts and as the Federal Reserve Banks will probably not be in the market for additional bonds until the last quarter, beginning September 1st.

Appropriations and Revenues.

The principal appropriation bills to cover the expenditures of the Federal government for the year ending June 30, 1917, have either become laws or are pending in conference between the Senate and House. The Senate has made large increases upon the sums proposed by the House, so that new revenues will have to be found or the proposed bond issues increased. The status of the several bills, with the figures for last year's appropriations for the same purposes, are given in the following statement:

Title	Regular annual appropriation 1916	Regular annual appropriation 1917	Increase 1917 over 1916
Agriculture	$22,971,782.00	†$25,230,527.00	$2,258,745.00
Army	101,974,195.83	†313,970,447.10	211,996,252.27
Diplomatic & consular	4,061,280.01	* 5,355,096.66	1,293,816.65
Dist. of Columbia.	11,859,584.45	§ 14,952,002.96	3,092,418.51
Fortifications	6,060,216.90	* 25,747,550.00	19,687,333.10
Indian	9,771,902.76	* 10,967,644.88	1,195,742.12
Legislative, executive & judicial..	36,904,799.75	* 37,925,690.25	1,020,890.50
Military Academy	1,069,813.37	§ 2,238,328.57	1,168,515.20
Navy	149,661,864.88	†315,826,843.54	166,164,978.66
Pensions	164,100,000.00	*158,065,000.00	¶6,035,000.00
Post Office	313,364,667.00	*322,937,679.00	9,573,012.00
Rivers & Harbors	30,000,000.00	* 40,598,135.00	10,598,135.00
Sundry Civil	126,222,750.79	*128,299,285.24	2,076,534.45
Total regular annual bills	978,022,857.74	1,402,114,230.20	424,091,372.46
Permanent annual appropriations .	121,567,207.00	135,074,673.00	13,507,466.00
Total	1,099,590,064.74	1,537,188,903.20	437,598,838.46
Deficiencies	12,316,343.90	53,567,298.34	41,250,954.44
Total	1,111,906,408.64	1,590,756,201.54	478,849,792.90
Miscellaneous	2,330,603.34	....	....
Nitrate Plant	....	20,000,000.00	....
Good roads	....	6,000,000.00	....
Rural credits	....	15,000,000.00	38,769,396.66
‖Shipping bill ...	....	50,100,000.00	50,100,000.00
Total	1,114,237,011.98	1,681,856,201.54	567,619,189.56

† As passed Senate.
§ As reported to Senate.
* As enacted into law.
¶ Decrease.
‖ $50,000,000 of this appropriation is to be met by bonds.

The Ways and Means Committee of the House estimated the total expenditures to be covered at $1,579,000,000, of which the amount required for the conduct of the postal service is met by postal earnings, and it proposed a bond issue of $125,000,000 to meet the special expenditures on the Mexican frontier. Deducting the sinking fund apportionment and making some other allowances it estimated, new revenue must be provided in the sum of $266,922,000. This it proposed to supply by increasing the income taxes, establishing a federal tax upon estates, by special taxes upon munitions, and by re-enacting some of the taxes of the war revenue act, dropping the stamp taxes. The revenue bill, as reported to the House, was estimated to yield new revenue in the present fiscal year as follows:

Income tax	$107,000,000
Estate tax	17,000,000
Munitions tax	71,000,000
Miscellaneous taxes	2,000,000
	$197,000,000

The remaining sum required, $69,922,000, the Committee proposed to obtain by reducing the general fund of the Treasury. The Committee estimated that when the Estate tax came into full operation the receipts would amount to $54,000,000 per annum. The bill passed the House substantially as prepared in the Committee, one of the changes being the dropping of the present special tax on banks.

The tax upon personal incomes of less than $20,000 and the tax upon corporation incomes are raised from one per cent. to two per cent. The exemptions of $3,000 for a single person and $4,000 for the head of a family remain. The classification for super-taxes is materially altered and the taxes increased, as will be seen by the following statement, which shows the classification for additional taxes under the present law and under the pending bill:

Present Law	*Pending Bill*	*Rate of Add tax*
Exceeding $20,000 and not more than $50,000	Exceeding $20,000 and not more than $40,000	1%
Exceeding $50,000 and not more than $75,000	Exceeding $40,000 and not more than $60,000	2%
Exceeding $75,000 and not more than $100,000	Exceeding $60,000 and not more than $80,000	3%
Exceeding $100,000 and not more than $250,000	Exceeding $80,000 and not more than $100,000	4%
Exceeding $250,000 and not more than $500,000	Exceeding $100,000 and not more than $150,000	5%
Exceeding $500,000	Exceeding $150,000 and not more than $200,000	6%
	Exceeding $200,000 and not more than $250,000	7%
	Exceeding $250,000 and not more than $300,000	8%
	Exceeding $300,000 but not exceeding $500,000	9%
	Exceeding $500,000	10%

The policy of collection at the source is continued, although experience has shown that this throws a very considerable burden upon the collecting agencies, and the same results to the government might be obtained from information at the source.

Taxation on Aliens.

The bill clears up the controverted point in the present law as to the liability of aliens upon income derived from property located in the United States, by making them liable. Foreign holders of American securities will therefore have to pay a double tax upon so much of their incomes as they receive upon American securities. The right of this government to levy upon income accruing upon property in the United States can hardly be questioned, but the expediency of doing so is very doubtful. The income taxes of European countries, and particularly of Great Britain, which is the chief foreign market for our securities, are very heavy, and bound to be so for many years, and additional taxes by the United States will undoubtedly tend to restrict investments in this country. The immediate effect will be to help the British government's campaign for the sale of British holdings of American securities, and after the war is over, when British investors look abroad again, this tax will count against the United States and in favor of countries which will be inviting capital.

An income tax is not intended to be a property tax or a tax upon business, but a personal tax upon net income from all sources. All properties located in this country upon which foreign holdings of our securities are based pay the usual property taxes here, and it is of very doubtful wisdom to impose income taxes upon non-resident aliens, particularly at this time and for the period following the war. Our securities are coming home quite fast enough without additional pressure from the government at Washington, and at the end of the war, when is to be determined the important question of how much gold Europe can draw from us, it will be very desirable that there shall be no obstacles to the sale of our securities abroad. For every dollar of our securities that we can sell in Great Britain or Europe we will have a dollar for investment at home or in the newly developing countries where we are seeking trade. Heretofore, whatever differences of opinion there have been upon the wisdom of a protective tariff upon goods, nobody has ever advocated tariff upon foreign capital employed in this country.

Special Taxes.

Nobody likes to pay taxes, but it is obvious that the revenues must be increased to meet the many expenditures that are planned. They are supposed to be emergency appropriations, but many of them necessarily involve continuing outlays. This, of course, is true of additions to the army and navy, and of every new commission. The more the Federal government does within the province formerly reserved to the states the more it will be asked to do. The authorization of an expenditure of $85,000,000 from the federal treasury to be apportioned among the states for roads is an illustration of the tendency. This offering is made in the form of a bonus to stimulate state activity, and it may have good results,

but there is danger in the fact that money from the federal treasury is commonly regarded as of the nature of a bonus. The federal treasury has always seemed to be fed by unseen springs, and it will seem so more than ever in the future, with enormous income taxes paid by less than one per cent. of the population, and the precedent for other taxes aimed at selected industries, upon offhand opinion that they are able to stand it.

It is a recognized principle of taxation that taxes should be arranged to interfere as little as possible with industry, and to be light upon the common necessities of life. Luxuries have always been fair game for the treasury. Presumably a man will not buy luxuries until he has provided the necessities, and if this were always true a tax upon the former would only reduce his purchases in that quarter. Unfortunately, there are people who reverse the order, but they can hardly expect systems of taxation to be adapted to them. The expenditures which people do not need to make, and which when made are unproductive, aggregate a very large amount among all classes, and it is against these that taxation should be directed. It harms nobody to pay a little upon his indulgences and vanities, and it is wholesome for everybody to realize that he is paying something for the support of the government under which he lives.

One of the objections to raising vast sums by income taxes which reach only a few is that there is no general understanding of the real cost of this appropriation to the public. It is not clearly understood that these sums are taken from the community's capital fund, thus lessening the productive wealth which is the most potent agency of community progress. The fund which it is first of all important shall be protected from impairment is that devoted to sustaining the health, strength and productive capacity of the people themselves. The fund of next importance is the savings, or surplus, which, if not dissipated, will be used for construction and industrial development, thus enlarging the productive capacity of the population. Between these two funds is a zone of expenditures wherein an enormous waste is constantly occurring. It is within this zone, so far as practicable, that taxation should fall. When people labor under the impression that taxes wrung from the rich involve no cost to others, and that it is really beneficial to reduce the "swollen" fortunes, the situation threatens the progress of the community.

Mexican Situation.

Washington's negotiations with Mexico are proceeding amicably, but the real difficulties are yet to be encountered. The country is prostrate, much of it devastated, transportation facilities crippled and industries idle. Agreements about how troops may be used to maintain order on the border do not go to the root of the trouble. Somehow, employment must be provided for the people before peace can be restored. A report from General Bell to the War Department, is reported as referring to General Herrera, of Carranza's staff, as follows:

> "Herrera believes in getting the mines in operation and encouraging foreigners to start work with their properties."

This statement has a pertinent application to the ignorant chatter about the "exploitation" of Mexico by foreign investors. A very large amount of American capital has been invested in Mexico, and much of it was lost even before the disorders of the last five years had begun. Mexican investments have been largely of a hazardous class. They have been of a class, however, which gave employment to labor, and in whatever locality they have been made, wages have been advanced by their influence. The wealth that has been taken from Mexico by outside capital is wealth that would not have come into existence without the use of outside capital, and the people of Mexico were immensely benefitted by the development work that was done. The condition of the laboring class was much better where foreign capital was providing employment than in other districts. Moreover, without this development work the industrial world outside would not have had the supply of useful metals and other products which have composed the exports of that country.

Thousands of American citizens own a great variety of interests in Mexico, and would rejoice to see peace and order restored to the country. There is no reason to believe that any number of them have plotted against the peace of the country, but it would not be strange if some of them believe that the best interests of Mexico would be served by intervention on the part of the United States. A great many people, both within and without Mexico, are convinced that the rehabilitation of the country is a long way off unless an outside authority gives protection for the resumption of industry. Where so many interests are involved no sweeping statement can be confidently made, but certainly it is true that the best known American industrial companies in Mexico have been patient and quiescent—content to have this government determine its course upon general principles of equity and the larger interests of both countries. It is a noteworthy fact that the stocks of these companies sold at the lowest points for the year in the days a few weeks ago when intervention seemed highly probable.

The Mexican situation is undoubtedly a very perplexing one. There is no influence worth mentioning in this country in favor of annexation. The restoration of order and protection to life and property is all that anybody wants. Every government is justified in demanding protection to its citizens in a foreign land, and in resorting to force if its demands are ignored. But such demands are usually addressed to a responsible government, while in Mexico there is no effective authority. Under such conditions it is necessary to either bear with the disorder as for the time being irremediable, or to go into the coun-

try with an armed force and attempt the task of governing it. This task it is agreed is a repugnant one to the American people. The fact that there has been no pressure upon the administration to take this step throughout the long period of outrages covered by the recent note of the Secretary of State to the defacto Mexican government is proof of this. It is to be hoped that gratifying results will come from the negotiations now pending. But after all this is said, few people would take the position that endless anarchy and banditry should be tolerated in Mexico, with all the consequent disturbance to our border states, complete sacrifice of foreign interests in Mexico, and indifference to the appalling sufferings of the innocent inhabitants of that country. The United States could not forever justify such an attitude to the other countries of the world.

Federal Reserve System.

The new collection rules of the Federal Reserve system have been in effect since July 15th, and officials report that a large proportion of the State banks are co-operating. In every town where there is a national bank it can be used as a medium of collection, but in many others the State banks are voluntarily remitting at par. In New England every bank has come into the system. At the request of the Secretary of the Treasury, the Postmaster General has assented to an arrangement under which in towns where there is no member banks, collection upon State banks may be made through the Post Office.

The Federal Reserve banks at Chicago and Kansas City have declared dividends, bringing the number of dividend-payers up to four. Richmond and Dallas are the other two. The earnings of the Chicago and Kansas City banks were chiefly from holdings of government bonds, of the other two from re-discounts.

The earning assets of the system are steadily increasing, and on July 22nd last aggregated $198,978,000, as against $96,734,000 on January 21, 1916, and $62,456,000 on July 23, 1915.

The Federal Reserve Bulletin makes the statement, however, that the total discounts of all the banks for the first five months of this year aggregated only $50,883,600, as compared with $59,337,800 in the corresponding period of 1915.

One of the most notable accessions to the Federal Reserve system since it was organized was announced during the past month, the Corn Exchange Bank, of New York, having decided to join.

Under the Kern amendment to the Clayton anti-trust act, now effective, the provision of the latter against interlocking bank directorates and officials, will not apply in instances where, in the judgment of the Federal Reserve Board, the banks are not in substantial competition. The Board has issued a circular to Federal Reserve agents advising them that no fixed rule can be prescribed governing such cases and that each case will be decided upon the facts presented. The consent of the Board must be obtained in each case.

The American International Corporation.

In November, 1915, application was made to the State of New York for a charter for the "American International Corporation," and the December number of this publication gave an account of the proposed organization. The capital was to be $50,000,000, one-half to be offered to stockholders of this Bank and the remainder to be placed with selected parties interested in the promotion of American foreign trade. A Board of Directors composed of men prominent in American business life was chosen, with Mr. F. A. Vanderlip as Chairman and Mr. Charles A. Stone, of the Stone & Webster corporation, as President.

Our readers will recall that the object announced was that of creating an expert and responsible organization which would serve as an agency for investigating opportunities for investment and trade development abroad. The Bank's observations through its branches in South America had led to the conviction that the first requisite to the establishment of more intimate relations between the United States and the countries of Latin America was for this country to take a more active part in the industrial progress of these neighbors. They are countries of great natural resources, but requiring capital, and in the past they have been obliged to look almost entirely to Europe. The large undertakings being financed in Europe, the expenditures for machinery and supplies were naturally made there, and business relations were more intimate with Europe than with this country.

The effect of the war was to suspend European investments in other parts of the world and turn applications in this direction. Furthermore, the great expansion of our industries in recent years, and particularly within the last year, has made it highly important that we find a larger outlet for their products abroad. In order to do this we must aid the developing countries to buy equipment from us, to increase their own production, and to become larger consumers of all we have to sell. This policy is not inimical to the interests of any country; it means development, progress, an increased production of the commodities of trade, more trade for everybody and more goods for consumption everywhere.

It was recognized, however, that in order to find capital in the United States for foreign enterprises, some competent agency must examine the propositions presented, select the good ones, supervise their development, and stand responsible for them to American investors. This was the function which the American International Corporation was organized to perform.

The creation of such an organization is no small task, but although little more than six months has elapsed since it was begun, good

progress has been made. One-half of the authorized capital has been called in, a large number of important propositions have been placed under investigation, and representatives have been sent not only to several countries of South America but to China, Russia, and other parts of the world.

In the first place, a general policy as to investments was settled upon, to wit: to give the preference to undertakings of the largest public importance, and calculated to establish permanent financial and trade relations between the United States and other countries. To further this end most effectually it was determined to co-operate with other American corporations or American engineers where they had meritorious foreign projects to present.

The First Contract.

One of the first accepted projects came in the latter class. The engineering firm of Ulen & Co., of Chicago, had in hand negotiations with the government of Uruguay for the construction of waterworks and sanitary works in three cities of that country. The contract had been originally let to a firm in Paris, which had been obliged by the war to drop it. Payment was to be made in bonds of the national government. Ulen & Co. had reached an agreement with the government as to contract terms, but found difficulty in disposing of the bonds. It laid the case before the American International, and an arrangement was effected by which the latter takes the bonds and supplies the money, and the Stone & Webster Engineering Company becomes associated in the undertaking. The arrangement was made in February, and already the engineers, superintendents and foremen have sailed, and large quantities of machinery have been forwarded. The shipping situation was so uncertain that the American sailing vessel, *Alice M. Colburn*, of 2600 tons, was purchased to carry equipment. The contract is to be completed in three years and will involve the purchase of quantities of cement, steel, tools and machinery which probably would have gone from Europe if the contract had been carried out as originally let. The total expenditure will be about $5,000,000.

Shipping Investments.

The disorganized state of ocean shipping and the embarrassment arising from it to American foreign trade was brought immediately to the attention of the Corporation. The Southern Pacific Company, operating the Pacific Mail Steamship Company, had determined to retire altogether from shipping on the Pacific ocean, and had sold its large ships of the trans-Pacific line, leaving the Asiatic trade without any ships carrying the American flag. It was negotiating for the sale of five ships engaged in the coasting trade from San Francisco to Panama, a line which had been in continual operation for fifty years, and these ships were likely to be transferred to the Atlantic. The loss of this line would have cut off communication between the Pacific ports of the United States and the western ports of Mexico and Central America to the destruction of an important trade. Petitions from Chambers of Commerce on the Pacific Coast came to the Corporation to take over the Pacific Mail and maintain this service, and the Corporation succeeded in effecting an arrangement with W. R. Grace & Company, extensive ship-operators, by which this was done.

Having become interested in the shipping situation, and regarding it of vital importance to our foreign trade, the Corporation then acquired a substantial interest in the International Mercantile Marine Company, undergoing reorganization. This company is the largest owner of shipping in the world. British interests predominate in it, but there is every reason to believe that American commerce will have fair treatment at its hands. The American International has also acquired an interest in the United Fruit Company, owning extensive plantations and other interests around the Carribean, and operating a fleet of steamers in that trade. The Corporation is having a careful, dispassionate, study made of the shipping problem, with a view to determining the practical effects of American legislation upon the business of operating ships under the American flag. The problem is evidently closely related to the development of our foreign trade.

Selling Agencies.

The Corporation has taken over the Allied Machinery Company, a company previously organized to act as foreign sales agents for certain American manufacturers of machine tools. Comprehensive plans for the development of this company have been made. Permanent offices will be established in Europe, ample stocks of machinery carried at convenient points, and an efficient corps of salesmen employed. This organization is doing a rapidly increasing business and will be on the ground after the war to represent American manufacturers in the work of rehabilitating the workshops of Europe for peaceful industry. This company, with the co-operation of American steel manufacturers, recently handled a Russian order for 170,000 tons of steel rails.

It is probable that selling arrangements for other machinery and other goods will be effected.

Latin-American Corporation.

The Latin-American field is so large, and so well deserving of careful attention, that after a preliminary survey a determination was reached to organize a subsidiary company to be devoted entirely to the investigation and handling of propositions from that quarter. This company has been organized under the laws of Maine, as the "Latin-American Corporation," with an authorized capital of $1,000,000. Mr. Charles A. Stone, President of the American International Corporation, is president of this corporation. Mr. R. P. Tinsley, Treasurer of the American International will be its Treasurer, and its directors, so far as announced are Mr. Stone, Mr. Tinsley, and Messrs. W. S. Kies, P. W. Henry and Thomas W. Streeter.

The organization will include an expert engineering and construction staff, and will be equipped not only for construction but for the operation of acquired properties. This corporation has under consideration numerous specific projects including the consolidation and rehabilitation of existing tram lines, the construction of public works, including water supply systems, sewerage systems, and harbor developments, and the construction and development of railways. As far as possible it will be the policy of the new corporation to retain a substantial permanent interest in the projects which it undertakes, so that it will participate in future earnings. It will thoroughly investigate engineering and construction propositions presented to it and will tender its services to South American governments and municipalities in planning public works.

Much of the work in prospect in South America will be financed through issues of government or municipal securities. Though the intrinsic value of these securities is not generally known to the American investor, and hence their market in this country is now limited, the new corporation is in possession of exact information regarding them, and in entering into contracts for the various projects which it has under consideration is in a position to assure itself of the entire safety of the securities which it accepts in payment and for their amortization out of earnings. It will be the policy of the American International Corporation to make the securities which it so receives the basis for its own issues of debentures. The American investor will thus be secured by the paid-up capital of the Corporation in addition to the obligations that have been accepted by the Corporation.

The Latin-American Corporation will have headquarters for its South American activities at Buenos Aires, and the staff for that office sailed from New York last week. One of the members of this party is Dr. R. P. Strong, who had charge of the Red Cross relief organization which stamped out typhus fever in Servia last year. Dr. Strong is an adviser upon sanitary works.

A Terminals Corporation.

In making a study of the export trade and of shipping services the officials of the American International Corporation were quickly impressed with the importance of port facilities and adequate terminal accommodations where the transfer of freight between railroads and ships must be made. There is no other point in the movement of goods from one country to another where there is so great an opportunity for reducing costs as where this transfer between rail and ocean transportation takes place. Every hour's delay for a ship waiting to load or unload her cargo must be paid for in her charges, every day's delay for a car waiting to be unloaded must be paid for in rail charges, and every unnecessary handling of freight is a tax on the traffic, not to speak of the other costs and vexations of freight congestion and delay. The failure to get goods through promptly, and to render reliable service, is more serious in any trade than the increase in charges. When American producers are competing in the markets of the world, this matter of efficient and economical service at the ports is bound to be an important factor.

Of course, adequate terminal organization is important, not only for foreign trade but for the domestic commerce. The problem has become acute at every railway center of the country, chiefly because of a lack of comprehensive planning, and of a coordination that would include all of the factors of the situation.

The port of New York in volume of traffic is first in the world. The imports and exports through it for the fiscal year ended June 30, 1916, aggregated $3,500,000,000, and for the fiscal year 1914 were over $2,000,000,000, which surpassed London and Hamburg. Approximately one half of this country's foreign trade passes through this harbor. Eighty-three ocean steamship lines maintain regular sailings to and from this port and as a railway center it is second only to Chicago. Not only is it a great commercial city but it is the greatest manufacturing center in the country. Its production of manufactured goods in 1910 was greater than that of any State in the union except Pennsylvania. There is an enormous volume of traffic to and from the city, and not only is there a serious charge upon goods passing through, but the cost of living for the millions of wage-earners in the city is enhanced, by the want of a comprehensive system for handling, distributing and warehousing freight. There are few piers in New York harbor where ships can be brought alongside of railway tracks.

The "American International Terminals Company" has been organized under the laws of Delaware, by the National City Company, Stone & Webster, and the American International Corporation. It will make a thorough study of terminals, and of course New York harbor will receive special attention, but the purpose is to make a specialty of terminal organization and construction, including warehousing, and the services of the company will be obtainable by other cities of this and foreign countries. Stone & Webster, who are associated in the enterprise, are known to be one of the leading engineering firms in the country, and the company has secured the services, as a terminal expert, of Mr. W. H. Lyford, for thirty years connected with the largest terminal railway system in Chicago.

Organizing for World Work.

The foregoing is a sketch of the more important accomplishments of the first six months. A vast amount of work has been done in effecting an organization, and a great number of propositions have been given a hearing. Out of these a limited number have been selected for further investigation, and some important projects are under negotiation. The foundation has been laid for large constructive work, which should do much to create friendly and mutually helpful relations between the United States and other countries.

Bank of Haiti

The National City Company, affiliated with the National City Bank of New York, has recently acquired all other American interests, and also certain foreign interests, in the Bank of Haiti, and the active direction of the bank will hereafter be from New York. The bank, which is the only bank in Haiti, and has nine branches over the island, was originally a French institution, with an authorized capital of 20,000,000 francs, of which one-quarter was paid up. It was reorganized in 1910, when some American and German capital became interested.

It has done the banking business of the government, and owing to the revolutions, and the conflicting claims of rival authorities, its situation has been a trying one, but its relations with the government are now completely adjusted. The currency of Haiti has been in a sad state of disorder, but under the new arrangement the bank will proceed to take up all government paper in circulation, issuing instead its own notes, which will be kept at a fixed relation to United States money, five "gourdes" to the dollar. The effect of a stable currency will be to greatly encourage investments in the island and facilitate trade.

Federal Farm Loan Act.

The Federal Farm Loan Act, which was signed by the President on the 17th, is the outcome of agitation extending over a number of years. Presidents Roosevelt and Taft both gave attention to the subject of rural credits, several official commissions have reported upon it, and a number of exhaustive treatises have been written upon it by individual investigators, with the result that there has been a growing sentiment in favor of some action that would improve the facilities for placing farm loans. With differences of opinion as to organization, there has been general approval of the idea that there should be means of mobilizing farm mortgages in the custody of a responsible organization, under public supervision, and of issuing debenture bonds upon the mortgage security. Such bonds might be expected to be a more popular form of investment than individual mortgages, and, if so, the supply of capital available for farm loans would be increased.

The Organization.

The new organization is modeled after the Federal Reserve system. The country will be divided into twelve districts, each of which will have a Farm Land Bank, with a minimum subscribed capital of $750,000. Over all of these banks will be the Federal Farm Loan Board, located at Washington, and corresponding in authority to the Federal Reserve Board. It will consist of five members, including the Secretary of the Treasury, who will be a member and chairman ex-officio. The other four members will be appointed by the President, and one of them shall be designated by the President as the Farm Loan Commissioner and be the active executive officer. The members will each have a salary of $10,000 per year, and not more than two of the appointees shall be of one political party. The full term of office will be eight years.

On July 27, the first step toward the organization of the system was taken by President Wilson who sent the following nominations to the Senate as members of the Board: Herbert Quick, of West Virginia; W. S. A. Smith, of Iowa; George W. Norris, of Philadelphia, and Charles E. Lobdell, of Kansas.

The Farm Loan Board will be represented in each district by an official to be known as the Registrar, whose duties will correspond to those of the Federal Reserve Agent in the Federal Reserve system. Transactions between the Land banks and this Board pass through the Registrar.

The capital of each Farm Land Bank will be not less than $750,000, in shares of $5 each, and the shares will be offered to the public, but unless the minimum amount is subscribed within thirty days from date it is offered it will become the duty of the Secretary of the Treasury to subscribe for the remainder, and to pay for the same upon call out of any funds in the Treasury not otherwise appropriated. The Board will determine when the capital shall be called in, but this provision gives assurance that it will be forthcoming. No stock will have any voting rights, except shares owned by the United States and by the National Farm Loan Associations (see later). Stock owned by the United States will receive no dividends, but is to be gradually retired at par. Each bank will have a board of directors of nine members, three of whom will be named by the Farm Loan Board and six will be elected by the National Farm Loan Associations. The banks may have branches, with the approval of the Farm Loan Board. No bank can make loans outside of its district.

The local organizations of the system are to be known as National Farm Loan Associations, and they are expected to provide the loan applications. Ten or more persons who are the owners, or are about to become owners, of land eligible as security for loans under the provisions of the act, and who intend to apply for loans, may form these associations, and no other parties are qualified for membership. Each association must have a board of not less than five directors, and the directors must elect a president, vice-president, secretary-treasurer and a loan committee of three members.

The capital stock of the National Farm Loan Associations will be in shares of $5 each, and every applicant for a loan must subscribe for an amount of stock equal to 5 per cent of the amount of the loan, to be paid when the loan is granted. If an application for a loan is approved the association will forward it to the bank of the district, and must accompany it with a subscription to the stock of the bank, equal in amount to 5 per cent of the loan. This stock is to be retired when the loan is paid off. The plan is thus to have all of the stock of the land banks eventually held by the local associations, and the stock of the associations held by the borrowing farmers, so that when the system is fully developed all dividends will go to the latter.

Every farm loan association will be required to endorse and become responsible for the payment of mortgages taken through it by the land bank of its district. Every member of an association will be liable ratably, and in proportion to his share holdings, but not for one another, for all debts, contracts or engagements of the association, to the extent of the par of his share-holdings, in addition to the amount paid in and represented by the shares. That is to say, there is a double liability, as with shares of national banks. The Associations, however, are to transact no business other than such as is incidental to their relations to the land banks.

Restrictions Upon Loans.

Upon receipt of loan applications the land bank must have the land appraised by appraisers of its own staff, and no loan shall be made unless it comes within the terms of the act. Reasonable charges, not exceeding the actual costs of appraisal and examination of title, together with legal fees and recording charges, may be made against the borrower, under regulations by the Farm Loan Board. Loans may be made for the following purposes and no others.

(a) To provide for the purchase of land for agricultural uses.

(b) To provide for the purchase of equipment, fertilizers and live stock necessary for the proper and reasonable operation of the mortgaged farm; the term "equipment" to be defined by the Federal Farm Loan Board.

(c) To provide buildings and for the improvement of farm lands; the term "improvement" to be defined by the Federal Farm Loan Board.

(d) To liquidate indebtedness of the owner of the land mortgaged, existing at the time of the organization of the first national farm loan association established in or for the county in which the land mortgaged is situated, or indebtedness subsequently incurred for purposes mentioned in this section.

Other important conditions are as follows:

No such loan shall exceed fifty per centum of the value of the land mortgaged and twenty per centum of the value of the permanent, insured improvements thereon, said value to be ascertained by appraisal, as provided in section ten of this Act. In making said appraisal the value of the land for agricultural purposes shall be the basis of appraisal and the earning power of said land shall be a principal factor.

No such loan shall be made to any person who is not at the time, or shortly to become, engaged in the cultivation of the farm mortgaged. In case of the sale of the mortgaged land, the Federal land bank may permit said mortgage and the stock interests of the vendor to be assumed by the purchaser. In case of the death of the mortgagor his heir or heirs, or his legal representative or representatives, shall have the option, within sixty days of such death, to assume the mortgage and stock interests of the deceased.

The amount of loans to any one borrower shall in no case exceed a maximum of $10,000, nor shall any loan be for a less sum than $100.

Every applicant for a loan under the terms of this Act shall make application on a form to be prescribed for that purpose by the Federal Farm Loan Board, and such applicant shall state the objects to which the proceeds of said loan are to be applied, and shall afford such other information as may be required.

Every borrower shall pay simple interest on defaulted payments at the rate of eight per centum per annum, and by express covenant in his mortgage deed shall undertake to pay when due all taxes, liens, judgments, or assessments which may be lawfully assessed against the land mortgaged. Taxes, liens, judgments, or assessments not paid when due, and paid by the mortgagee, shall become a part of the mortgage debt and shall bear simple interest at the rate of eight per centum per annum. Every borrower shall undertake to keep insured to the satisfaction of the Federal Farm Loan Board all buildings the value of which was a factor in determining the amount of the loan. Insurance shall be made payable to the mortgagee as its interest may appear at time of loss, and, at the option of the mortgagor and subject to general regulations of the Federal Farm Loan Board, sums so received may be used to pay for reconstruction of the buildings destroyed.

Every such mortgage shall contain an agreement providing for the repayment of the loan on an amortization plan by means of a fixed number of annual or semi-annual installments sufficient to cover, first, a charge on the loan, at a rate not exceeding the interest rate in the last series of farm loan bonds issued by the land bank making the loan; second, a charge for administration and profits at a rate not exceeding one per centum per annum on the unpaid principal, said two rates combined constituting the interest rate on the mortgage; and, third, such amounts to be applied on the principal as will extinguish the debt within an agreed period, not less than five years nor more than forty years: *Provided,* That after five years from the date upon which a loan is made additional payments in sums of $25 or any multiple thereof for the reduction of the principal, or the payment of the entire principal, may be made on any regular installment date under the rules and regulations of the Federal Farm Loan Board: *And provided further,* That before the first issue of farm loan bonds by any land bank the interest rate on mortgages may be determined in the discretion of said land bank subject to the provisions and limitations of this Act.

No loan on mortgage shall be made under this Act at a rate of interest exceeding six per centum per annum, exclusive of amortization payments.

Every borrower who shall be granted a loan under the provisions of this Act shall enter into an agreement, in form and under conditions to be prescribed by the Federal Farm Loan Board, that if the whole or any portion of his loan shall be expended for purposes other than those specified in his original application, or if the borrower shall be in default in respect to any condition or covenant of the mortgage, the whole of said loan shall, at the option of the mortgagee, become due and payable forthwith: *Provided,* That the borrower may use part of said loan to pay for his stock to the farm loan association, and the land bank holding such mortgage may permit said loan to be used for any purpose specified in subsection fourth of this section.

Farm Loan Bonds.

The land banks may make application to the Farm Loan Board for permission to issue bonds secured by farm mortgages taken pursuant to the above conditions. An application for bonds must be forwarded through the Registrar, and the bank must deliver to the Registrar mortgages amounting to not less than the sum of the bonds applied for. If the issue is approved the bonds will be delivered through the Registrar to the bank, and the mortgages, transferred by assignment, will be retained in the custody of the Registrar, and kept in a vault approved by the Farm Loan Board.

All farm loan bonds issued by banks of the system will be alike in general design, except that they shall show the bank by which they are issued, and the particular series to which they belong. They shall be issued in series of not less than $50,000, amount and terms to be fixed by the Farm Loan Board. The rate of interest shall not exceed 5 per cent. per annum. The denominations will be $25, $50, $100, $500 and $1000. They shall run for specified maximum and minimum periods, subject to retirement at the option of the land bank at any time after five years from date of issue.

Every land bank is primarily responsible for the bonds issued by it, but in the event of the insolvency of any bank, all other banks will be liable to assessment to make up any deficit. The assessment will be levied by the Farm Loan Board upon the basis of each bank's outstanding bond issues. In other words the issues of each bank are guaranteed by all the other banks.

Earnings and Dividends.

The earnings of the land banks and local associations must all be made from this paid-up capital plus the one per cent. margin which is allowed between the rate of interest paid upon the bonds and the rate of interest charged the borrowing farmer. Of the net earnings the land banks must set aside 25 per cent. in a reserve fund until said fund equals 20 per cent. of the capital, and after that, and when all impairments are made good, 5 per cent. of the net earnings shall be set aside. After these reservations the whole or any part of the remaining earnings may be used for dividends.

The local associations (whose earnings come from stock in the land banks) are required to set aside 10 per cent. of their net income until the fund reaches 20 per cent. of their capital, and after that, and after any impairment has been made good, two per cent. When this has been done the remainder may be divided in dividends.

Agents of Federal Land Banks.

After the act has been in effect one year, if it shall appear to the Farm Loan Board that local associations have not been formed, and are not likely to be formed in any locality, the Board may authorize the appointment of agents to negotiate loans in such localities.

Such agent must be a duly incorporated bank or trust company, chartered by the State in which it has its principal office, and the agent must comply with all the conditions provided for the national farm loan associations, i.e., it must subscribe for stock in the land bank to the extent of 5 per cent. of the loans taken by the banks, and it must guarantee all loans which it negotiates.

Joint Stock Banks.

Provision is made for joint stock land banks, with a paid-up capital of not less than $250,000, subscribers to be subject to a double liability as with national banks. The capital for these must be all provided by private parties. These banks will be subject to the same restrictions as the federal land banks as to the rates of interest charged for loans and paid upon bonds. No other earnings are permitted than such as accrue from their capital and from the one per cent. margin between the rate on mortgages and the rate on bonds. Actual expenses for fees and examinations may be included in the loan.

The joint stock banks will be under the supervision of the Farm Loan Board, and will be authorized to issue bonds based upon mortgages. Such bonds will be in a form prescribed by the Board but readily distinguishable from the bonds issued by the federal land banks.

The joint stock banks will not be subject to the conditions placed upon the federal land banks, as to the purposes for which the money must be used, or as to amortization, or the occupation of the land by owner.

Exemption From Taxation.

Every Federal land bank and every national farm loan association, including the capital and reserve or surplus therein and the income derived therefrom, is exempt from federal, state and local taxation, except taxes upon real estate. First mortgages issued to the Federal land banks, or joint stock land banks, and farm loan bonds issued under the provisions of this act, shall be deemed and held to be instrumentalities of the government of the United States, and as such they and the income derived therefrom shall be exempt from Federal, State, municipal and local taxation. This declaration would seem to imply that these bonds are practically guaranteed by the government but there is no guaranty.

Government Depositaries.

There are two provisions in the act authorizing United States government deposits. Section six provides that Federal land banks and joint stock banks may be designated by the Secretary of the Treasury as depositaries of public money, except receipts from customs, and that they may be also employed as financial agents of the government, and shall perform such reasonable duties as may be required of them. The Secretary of the Treasury shall require them to give security for the safekeeping of monies and for the faithful performance of their duties as financial agents. No government funds deposited under the provisions of this section shall be invested in mortgage loans or farm loans. Apparently this section is to secure to the Treasury the services of these banks in selling government bonds, if this should be desirable.

Section 32 provides that the Secretary of the Treasury may in his discretion, upon the request of the Farm Loan Board, make deposits for the temporary use of any Federal land bank. Such deposits shall be secured by farm loan bonds or other security satisfactory to the Secretary of the Treasury, and shall bear a rate of interest not exceeding the current rate upon other public deposits. The aggregate of all sums so deposited in the land banks at any one time shall not exceed $6,000,000. The purpose of this provision is doubtless to enable the Treasury to come to the assistance of the land banks in an emergency, as for example upon the maturity of an issue of bonds.

Doubtful Features of the System.

That this system, supported as it is by the government, can be carried through to be eventually a working success, will hardly be doubted. Criticism will be directed first to the elaborate organization, which many regard as more expen-

sive than necessary; and, second, to certain features that are deemed unsound in principle and unnecessary to the achievement of the end sought. Until after a year has elapsed no loans can be accepted unless the applications come through the local, or neighborhood, associations, membership in which is restricted to intending borrowers. The authors of the measure doubtless believe that the farmers' needs are so pressing that there will be a rush to organize these associations. Time will show whether the farmers who are eligible under the terms of the act will promptly take steps to utilize it. A large proportion of such farmers already have mortgages outstanding, and must pay them off according to their terms. Moreover, they may be disposed to wait and see what advantages will be gained by shifting their loans to the new system. In the older states, where the common rate on farm loans is 5 to 6 per cent., it is not clear that there will be any inducement to early action.

Although the law permits different interest rates for different localities, the banks are practically put on the same credit basis by the provision which makes them all responsible for each other's obligations. There are states in which climatic conditions make crops more uncertain than in other states, and interest rates are higher there, partly on that account and partly because the communities are new, local capital is relatively scarce, and the population is not so well able to go through a crop failure. In these states interest rates are naturally higher than in states where crop failure is unknown and local capital is in good supply. Under this system the latter states will lend their credit to the former. Will this work out satisfactorily? It will depend upon how carefully loans are made in the new and uncertain localities. It is within the memory of men when millions of savings belonging to the Eastern states were lost in loans upon western farm lands. This system would have gone to smash then. Conditions are better now, and it is inconceivable that any portion of the country should ever again pass through such an experience as that. But the principle of making a land bank in one part of the country guarantee the loans made by a land bank in another part of the country is questionable. This feature of the plan savors too much of the guaranty of deposits. It is good to help everybody to have the benefit of all the credit to which he is entitled, but it is doubtful policy to help one with cost or risk to another.

The same comment may be made upon the provisions putting the land banks and the capital invested in land bonds upon a different basis from other banks and other capital as regards taxation. It is not good policy or fair policy to exempt anybody from taxation. This exemption is for the benefit of owners of farming lands, and no other

STATEMENT OF RESOURCES AND LIABILITIES OF EACH OF THE TWELVE FEDERAL RESERVE BANKS AT THE CLOSE OF BUSINESS JULY 28, 1916.

(In Thousands of Dollars)

RESOURCES	Boston	N. Y.	Phila.	Clev'd	Rich'd	Atlanta	Chic.	St.Louis	M'np'ls	Kas.City	Dallas	S.Fr'sco	Total
Gold coin and certif. in vault	$9,242	150,469	10,253	13,716	5,248	5,485	35,220	4,162	6,041	4,078	5,312	10,705	259,931
Gold settlement fund	13,147	10,824	13,773	12,451	10,823	1,498	9,775	5,684	4,304	13,297	4,265	3,070	102,911
Gold redemption fund	5	250	50	51	419	441	200	58	30	144	258	12	1,918
Total gold reserve	22,394	161,543	24,076	26,218	16,490	7,424	45,195	9,904	10,375	17,519	9,835	13,787	364,760
Legal tender notes, silver, etc.	439	10,160	248	1,133	251	1,125	788	1,177	407	70	787	4	16,589
Total reserve	22,833	171,703	24,324	27,351	16,741	8,549	45,985	11,081	10,782	17,589	10,622	13,791	381,349
5% redemption fund—F. R. Bank notes	...	...	...	...	...	...	...	...	...	400	50	...	450
Bills discounted — Members	2,313	390	637	284	5,884	3,013	3,800	665	1,465	2,185	6,403	555	27,594
Bills bought in open market	12,170	28,489	11,319	7,291	825	1,418	5,784	5,180	2,759	528	...	7,691	83,454
Total bills on hand	14,483	28,879	11,956	7,575	6,709	4,431	9.584	5,845	4,224	2,713	6,403	8,246	111,048*
Investments: U. S. bonds	3,082	2,460	3,182	5,650	1,377	1,508	9,753	2,770	3,512	9,647	2,581	3,134	48,656
One-yr. U.S. Treas. notes	250	2,282	818	800	684	526	...	570	350	616	529	500	7,925
Municipal warrants	2,700	7,389	2,410	4,539	336	...	4,368	1,735	1,058	424	...	2,261	27,220
Total earning assets	20,515	41,010	18,366	18,564	9,106	6,465	23,705	10,920	9.144	13,400	9,513	14,141	194.849
Fed. Reserve Notes, Net	844	11,775	504	267	...	1,228	1,286	1,194	1,446	...	...	1,764	20,308
Due from other F. R. Banks, Net	...	...	...	2,420	1,863	157	8,743	3,267	923	1,093	...	1,389	12,620§
All other resources	312	454	94	390	144	1,360	755	570	91	251	939	154	5.514
TOTAL RESOURCES	44,504	224,942	43,288	48,992	27,854	17,759	80,472	27,032	22,386	32,733	21,124	31,239	615,090
LIABILITIES													
Capital paid in	4,925	11,596	5,216	5,966	3,358	2,494	6,671	2,792	2,578	3,000	2,689	3,921	55,206
Government deposits	3,820	18,300	6,223	2,893	3,855	4,599	3,618	4,533	863	2,653	2,147	3,038	56,542
Member bank deposits, Net	35,011	189,139	31,418	40,133	16,410	10,660	70,183	19,707	18,945	23,910	11,470	24,280	491,266
Fed. Reserve notes, Net	...	...	...	...	4,138	...	...	...	...	1,478	4,506	...	10,122†
F. R. Bk. notes in circ.	...	...	...	...	...	...	...	...	...	1,692	...	...	1,692
Due to other F. R. Bks., Net	643	5,907	373	...	...	...	...	...	...	...	312	...	...
All other liabilities	105	...	58	...	93	6	...	...	...	...	...	...	262
TOTAL LIABILITIES	44,504	224,942	43,288	48,992	27,854	17,759	80,472	27,032	22,386	32,733	21,124	31,239	615,090

(†) Total Reserve notes in circulation, 152,590.

(§) After deduction of items in transit between Federal Reserve Banks, 12,620, the Gold Reserve against Net deposit and note liabilities is 66.9% and the cash reserve is 69.9%. Cash Reserve against net deposit and note liabilities after setting aside 40% Gold Reserve against net liabilities on Federal Reserve Notes in circulation, 70.5%.

(*) Maturities of bills discounted and loans; within 10 days, 17,308; to 30 days, 19,421; to 60 days, 40,019; other maturities, 34,300; Total: 111,048.

class of people has been so generally prosperous in recent years. The average value per acre of all the farming lands in the United States, exclusive of improvements, as reported by the Census Bureau, increased from 1900 to 1910 by 108 per cent. and has gone on increasing since at approximately the same rate. The increase in the cost of living, of which there is general complaint, is chiefly due to the rise in price of farm products. With a rise in the value of their bare lands continuing now over ten years at an average rate of above 10 per cent. per annum, the owners of farms can afford to pay the natural rate for capital when the means are provided to supply it readily. If this act accomplishes what is expected of it in the way of supplying cheap and easy money on land security it will lift land prices still higher, to the advantage of present land-owners. How long will it be before the cry will be heard that it is more difficult than ever for a poor man to acquire land?

The salaries of the members of the Farm Loan Board, and all the expenses of the Board and its staff of appraisers and aids, are to be paid permanently out of the Treasury of the United States. In this respect the system differs from the Federal Reserve system, the expenses of the latter being borne entirely by assessments upon the member banks.

Effects of Special Legislation.

Legislative efforts to favor certain classes or occupations at the expense of the rest of the community seldom accomplish what is calculated of them, because there is usually a reaction of some kind which brings new factors into the situation. If you could change one thing and have everything else remain the same the result might be as expected, but changing one thing affects everything else, so that results may be very different from what are expected. There can be no two opinions as to the desirability of developing agriculture, and of making capital readily available for that purpose. Every facility which a perfected organization can afford should be provided. All classes will be benefited by greater production from the farms. But it does not follow that special privileges should be granted, or that they will yield beneficial results in the long run. The heavy taxes that are now being placed upon large incomes are creating a demand for investments exempt from such levies. It has been evident in the market for municipal bonds, and will be more evident hereafter under the new schedule of super-taxes. These land bank bonds will be another form of investment free from these taxes, and the revenues of the government will suffer accordingly. Of course the advocates of this exemption will say that the loss of revenues will be fully made up to the country by the benefits derived from such investments, but there are benefits to the country from all kinds of investments and there is no better way of determining how much capital should go to agriculture and how much to manufactures and transportation than by allowing capital to go into them all on equal terms. There is serious question as to the constitutionality of the exemption proposed.

There is not only discrimination in favor of these banks and bonds as compared with other banks and bonds but as compared with other capital employed in farm loans. The individual who lends money to farmers direct remains subject to taxation, while if he buys these land bank bonds the investment and income from it are free of taxation. This is a use of the taxing power to build up a governmental system. If the governmental system is really meritorious it should be a success without privileges or arbitrary methods.

Discount Rates.

Discount rates of each Federal Reserve Bank in effect July 28, 1916.

	MATURITIES				Agricultural and live-stock paper over 90 days.	Trade acceptances. F		Commodity paper. B
	10 days and less.	over 10 days to 30 days, inclusive.	over 30 to 60 days, inclusive.	over 60 to 90 days. inclusive.		To 60 days, inclusive.	Over 60 to 90 days inclusive.	
Boston........	3	3½	4	4	5	3½	3½	A 3½
New York....	3	4	4	4	5	3½	3½	....
Philadelphia.	3½	4	4	4	4½	3½	3½	A 3½
Cleveland....	3½	4	4½	4½	5	3½	4	....
Richmond....	......	4	4	4	5	3½	3½	A 3½
Atlanta.......	......	4	4	4	5	3½	3½	B 3½
Atlanta New Orleans br	......	....	....	....	......	C3¾-4	C3¾-4	....
Chicago......	3½	4	4½	4½	5	......	......	....
St. Louis......	3	4	4	4	5	D 3	D 3½	3
Minneapolis .	......	4	4	4½	5	3½	3½	3½
Kansas City..	4½	4½	4½	4½	5	4	4	3
Dallas........	......	4	4	4	4½	3½	3½	B 3
SanFrancisco	3	3½	4	4½	5½	3	3½	E

A Rate for commodity paper maturing within 90 days.

B Rate for bills of exchange in open market operations; Atlanta 3½—5½; paper bought, Dallas 3 – 5.

C Rate for trade acceptances bought in open market, without member bank indorsement.

D A rate of 2 to 4 per cent for bills with or without member bank indorsement was authorized on Dec. 21, 1915.

E Rate for commodity paper maturing within 30 days, 3½ per cent; over 30 to 60 days, 4 per cent; over 60 to 90 days, 4½ per cent; over 90 days, 5 per cent.

F Rate for trade acceptances to 30 days inclusive: Boston 3½; New York 3½; Philadelphia 3½; Cleveland 3; Richmond 3½; Atlanta 3½; Atlanta New Orleans Branch) 3¾-4; St. Louis D 3; Minneapolis 3½; Kansas City 4; Dallas 3½; San Francisco 3.